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FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**GUSTE I, LLC**

DECEMBER 31, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4/21/11

Guste I, LLC

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## INDEPENDENT AUDITORS' REPORT

To the Members  
Guste I, LLC

We have audited the accompanying balance sheet of Guste I, LLC (the Company) as of December 31, 2010, and the related statements of operations, members' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guste I, LLC as of December 31, 2010, and the results of its operations, members' equity (deficit) and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2011, on our consideration of Guste I, LLC's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied to the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Reznick Group, P.C.*

Charlotte, North Carolina  
March 1, 2011

Guste I, LLC  
BALANCE SHEET  
December 31, 2010

ASSETS

CURRENT ASSETS

Cash	\$ 910,844
Tenant accounts receivable	1,376
Accounts receivable - related party	484,595
Prepaid expenses	<u>9,625</u>
Total current assets	<u>1,406,440</u>

RESTRICTED DEPOSITS AND FUNDED RESERVES

Tenant security deposits	16,662
Other escrow deposit	<u>2,084,581</u>
Total restricted deposits and funded reserves	<u>2,101,243</u>

RENTAL PROPERTY

Building and improvements	12,315,292
Land improvements	2,401,278
Furniture and equipment	<u>281,800</u>
	14,998,370
Accumulated depreciation	<u>(1,912,899)</u>
Total rental property	<u>13,085,471</u>

OTHER ASSETS

Deferred financing fees, net of accumulated amortization of \$406,496	847,391
Other assets	<u>38,677</u>
Total other assets	<u>886,068</u>

Total assets	<u><u>\$ 17,479,222</u></u>
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(continued)

Guste I, LLC

BALANCE SHEET - CONTINUED

December 31, 2010

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 16,033
Due to Resident Management Corporation	540,873
Accrued interest on construction note payable	2,857,969
Construction note payable to related party	10,634,312
Developer fee payable	899,510
Due to related party	5,749,792
Company management fee payable	73,800
Asset management fee payable	<u>11,057</u>

Total current liabilities	<u>20,783,346</u>
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DEPOSITS AND PREPAID LIABILITY

Tenant security deposits	<u>16,400</u>
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Total deposits and prepaid liability	<u>16,400</u>
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LONG-TERM LIABILITIES

Due to related parties	<u>293,508</u>
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Total long-term liabilities	<u>293,508</u>
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COMMITMENTS

Members' equity (deficit)	<u>(3,614,032)</u>
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Total liabilities and members' equity (deficit)	<u>\$ 17,479,222</u>
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See notes to financial statements

Guste I, LLC

STATEMENT OF OPERATIONS

Year ended December 31, 2010

Revenue	
Rental income	\$ 607,968
Vacancies and concessions	(29,867)
Other operating income	<u>121,605</u>
Total revenue	<u>699,706</u>
Operating expenses	
Salaries and employee benefits	107,005
Repairs and maintenance	43,731
Utilities	88,325
Property management fee	22,560
Property insurance	129,751
Miscellaneous operating expenses	<u>74,055</u>
Total operating expenses	<u>465,427</u>
Net operating income (loss)	<u>234,279</u>
Other income (expense)	
Interest income	2,118
Interest expense - other loans	(319,029)
Other financial income (expense)	(2,620)
Miscellaneous other income (expense)	(28,604)
Asset management fee	(5,570)
Other related party fees and expenses	(19,770)
Depreciation	(533,306)
Amortization	<u>(69,960)</u>
Total other income (expense)	<u>(976,741)</u>
Net loss	<u><u>\$ (742,462)</u></u>

See notes to financial statements

Guste I, LLC

STATEMENT OF MEMBERS' EQUITY (DEFICIT)

Year ended December 31, 2010

	Managing Member	Special Member	Investor Member	Total Members' Equity (Deficit)
Balance, January 1, 2010	\$ (318)	\$ -	\$ (2,871,252)	\$ (2,871,570)
Net loss	(74)	-	(742,388)	(742,462)
Balance, December 31, 2010	<u>\$ (392)</u>	<u>\$ -</u>	<u>\$ (3,613,640)</u>	<u>\$ (3,614,032)</u>
Members' percentage of company losses	<u>0.01%</u>	<u>0.00%</u>	<u>99.99%</u>	<u>100.00%</u>

See notes to financial statements

Guste I, LLC

STATEMENT OF CASH FLOW

December 31, 2010

Cash flows from operating activities	
Net loss	\$ (742,462)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	533,306
Amortization	69,960
Changes in:	
Tenant accounts receivable	5,683
Prepaid expenses	14,248
Other assets	472
Accounts payable	7,243
Due to Resident Management Corporation	95,837
Accrued interest payable	326,499
Tenant security deposits	4,979
Accrued asset management fee	5,570
Accrued company management fee	<u>12,300</u>
Net cash provided by operating activities	<u>333,635</u>
Cash flows from investing activities	
Expenditures on rental property	(26,935)
Change in other escrow deposit	<u>108,539</u>
Net cash provided by investing activities	<u>81,604</u>
Net increase in cash	415,239
Cash, beginning	<u>495,605</u>
Cash, end	<u>\$ 910,844</u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u>\$ -</u>

See notes to financial statements



Guste I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Guste I, LLC (the "Company"), was formed as a limited liability company under the laws of the State of Louisiana on December 11, 2003 to construct, develop and operate an 82-unit apartment project known as Guste I Apartments (the "Project") in New Orleans, Louisiana. The Project is rented to low-income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits as provided under Section 42 of the Internal Revenue Code.

The Managing Member is Lune d'Or Enterprises LLC, a Louisiana limited liability company. The Investor Member is MMA Guste I, LLC, a Delaware limited liability company. The Special Member is MMA Special Limited Partner, Inc., a Florida corporation. The ownership of the Company is as follows:

Managing Member	0.01%
Investor Member	99.99%
Special Member	<u>0.00%</u>
	<u>100.00%</u>

The Company is expected to generate low-income housing credits from the State of Louisiana totaling \$5,234,940. Generally, such tax credits are expected to become available for use by the members pro rata over a ten-year period. To qualify for the tax credits, the Company must meet certain requirements, including attaining a qualified eligible basis sufficient to support the allocation.

The major activities of the Company are governed by the Operating Agreement and Internal Revenue Code Section 42. Each building of the Project is expected to qualify for and be allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the Project to occupant eligibility and unit gross rent, among other requirements. Each building of the Project must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the Investor Member.

The term of the Company shall continue until December 31, 2104, unless sooner dissolved in accordance with the provisions of the Amended and Restated Operating Agreement (the Operating Agreement).

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Guste I, LLC is a component unit of the Housing Authority of New Orleans (HANO) under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity. The Company is presented as a discretely presented component unit of HANO as there is a financial benefit/burden relationship with HANO.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Tenant Receivables

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Deferred Financing Fees

Financing fees are amortized over the term of the loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization expense for the year ended December 31, 2010 was \$69,960.

Estimated amortization expense for each of the ensuing years through December 31, 2010 is as follows:

2011	\$	69,960
2012		69,960
2013		69,960
2014		69,960
2015		69,960
Thereafter		497,591
Total	\$	<u>847,391</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Rental Property

Rental property is recorded at cost. Depreciation of rental property is computed primarily using the following methods and estimated useful lives:

	Method	Estimated useful lives	Accumulated Depreciation Beginning of Year	Depreciation Expense	Accumulated Depreciation End of Year
Building	Straight-line	40 years	\$ 791,960	\$ 307,830	\$ 1,099,790
Land improvements	Declining-balance	20 years	465,143	193,614	658,757
Furniture and equipment	Declining-balance	10 years	122,490	31,862	154,352
			<u>\$ 1,379,593</u>	<u>\$ 533,306</u>	<u>\$ 1,912,899</u>

Impairment of Long-Lived Assets

The Company reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended December 31, 2010.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Company and the tenants of the property are operating leases.

Advertising Costs

The Company's policy is to expense advertising costs when incurred.

Income Taxes

The Company has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to take any tax positions in order to qualify as a pass-through entity. The Company is required to file and does file tax returns

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Company has no other tax positions which must be considered for disclosure.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Economic Concentrations

The Company operates one property in New Orleans, Louisiana. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

NOTE 3 -ESCROW DEPOSITS AND RESTRICTED BALANCES

Restricted Cash

Pursuant to the construction loan agreement between HANO and the Company, HANO established a cash collateral account which is used to deposit the proceeds of the construction loan. As of December 31, 2010, the balance of the restricted cash was \$2,084,581.

Replacement Reserve

Pursuant to the Operating Agreement, the Company is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs. Required monthly deposits are required in the amount of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2010, no amounts had been funded.

ACC Subsidy Reserve

Pursuant to the Operating Agreement, the Company shall establish a reserve account in the amount of \$227,000 as set forth in the Regulatory and Operating Agreement between the Company and HANO. Funds in the ACC subsidy reserve may be used to pay operating expenses

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

subject to approval and consent of the Investor Member. As of December 31, 2010, no amounts had been funded.

Operating Reserve

Pursuant to the Operating Agreement, the Managing Member is required to establish an operating reserve of \$170,000 in a separate reserve account to fund operating expenses, to the extent required, subject to any Requisite Approvals and to the Consent of the Investor Member. As of December 31, 2010, no amounts have been funded.

NOTE 4 - CONTRACT SUBSIDY RECEIVABLE

Sixty-seven units within the Project are eligible to receive operating fund assistance from the Department of Housing and Urban Development through HANO, under Section 9(e) of the United States Housing Act of 1937. During 2010, the Company earned operating fund assistance in the amount of \$212,486. This amount is included in rental income in the statement of operations.

NOTE 5 - RELATED PARTY TRANSACTIONS

Developer Agreement

The Company has entered into a development agreement with Crescent Affordable Housing Corporation ("CAHC"), an affiliate of the Managing Member. The agreement provides for development fee and overhead in the amount of \$1,199,510 for services in connection with the development of the Project and supervision of the construction. Development fees are earned based upon the occurrence of certain events, as defined, during development and construction. The development fee bears no interest. For the year ended December 31, 2010, the entire fee has been earned and \$899,510 remains payable.

Company Management Fee

Pursuant to the Operating Agreement, the Managing Member shall earn an annual, cumulative fee in the amount of \$12,300 for its management services to the Company. For the year ended December 31, 2010, \$12,300 has been charged to operations and \$73,800 remains payable.

Asset Management Fee

Pursuant to the Operating Agreement, the Investor Member shall earn an annual, cumulative fee in the amount of \$5,000 per annum. The fee is adjusted each year for the changes in the

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Consumer Price Index. For the year ended December 31, 2010, \$5,570 has been earned and \$11,057 remains payable.

Pre-Development Loan

HANO, an affiliate of the Managing Member, loaned the Company \$1,698,216 to pay for costs incurred during construction and development. The loan does not bear interest and is collateralized by the Project. Payments to HANO are payable from available cash flows from the Project. As of December 31, 2010, \$698,216 remains outstanding and is included in due to related party.

Due to CAHC

CAHC, an affiliate of the Managing Member, originally loaned the Company \$77,199 to pay for costs incurred during construction and development. The loan does not bear interest and is collateralized by the Project. As of December 31, 2010, \$80 remains payable and is included in due to related party.

Supplemental Loan

In November 2006, the Company obtained a supplemental loan in the amount of \$2,939,498 from HANO. The supplemental loan does not bear interest. The entire amount of unpaid principal is due and payable on November 1, 2061. As of December 31, 2010, \$2,939,498 remains payable and is included in due to related party.

Due to HANO

During 2008, the Company incurred costs due to HANO. The advances related to the miscellaneous costs associated with the construction and operations of the Project. The advances do not bear interest and are to be paid from capital contributions and cash flow. As of December 31, 2010, advances totaling \$1,553,097 is payable to HANO and is included in due to related party.

City Grant Funds due to HANO

The Company received from HANO, advances from a City of New Orleans grant in 2008. During 2009, it was discovered that a portion of the funds were not qualified costs under the grant and are due back to HANO. The balance due to HANO at December 31, 2010 is \$558,901. The amount is included in due to related party and is payable out of the other escrow deposit.

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Operating Subsidy

The Company is due \$484,595 as a result of rental and other subsidy received from HANO in 2009 and earlier years. Subsequent to year end, the Company has received \$252,000 from HANO. The balance is expected to be received in 2011 thus has been classified as a current asset in the accompanying balance sheet.

During 2010, the company received operating subsidy from HANO to pay property insurance in the amount of \$115,503.

NOTE 6 - NOTES PAYABLE TO AFFILIATES

Construction Mortgage Note

In December 2003, the Company entered into a financing agreement with HANO to use the proceeds from the issuance of Capital Fund Program Revenue Bonds for the construction and development of the Project and payment of bond redemption. The principal amount of the note was \$13,189,372. In January 2005, the Company entered into a new financing agreement in the amount of \$10,643,312 with HANO. The loan bears interest at 3 percent with both the unpaid principal and interest due and payable on February 1, 2007. The due date was extended through December 31, 2011. Outstanding principal as of December 31, 2010 was \$10,634,312. For the year ended December 31, 2010, the Company incurred interest in the amount of \$319,029 and accrued interest was \$2,857,969.

The construction mortgage note will become permanent when the final equity payment is received from the Investor Member. During 2010, HANO modified and extended the mortgage note, reducing the interest rate to 3%, with a maturity date of December 31, 2011.

Construction Loan

In January 2005, the Company obtained a construction loan in the amount of \$248,999 from HANO. The construction loan accrues interest at 3% with both the unpaid principal and interest due on January 31, 2060. Outstanding principal as of December 31, 2010 was \$248,999. For the year ended December 31, 2010, the Company incurred interest of \$7,470 and accrued interest was \$44,509.

NOTE 7 - MEMBERS' CAPITAL

Capital contributions totaling \$4,817,971, including an upward adjuster of \$11,722, are due from the Investor Member when certain milestones are achieved as disclosed in the Operating

Guste I, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Agreement. As of December 31, 2010, the Investor Member has funded \$300,000. The above contributions are subject to adjustment as defined in the Operating Agreement. The Managing Member is required to make contributions of \$100 and the Special Member is required to make contributions of \$10.

Cash Flow, as defined in the Operating Agreement, subject to certain restrictions outlined in the Operating Agreement, is to be distributed as follows:

1. First, to the payment of any Tax Credit Shortfall Payments owed to the Investor Member;
2. Second, to replenish any amounts withdrawn in such year from the Operating Reserve or the ACC Subsidy Reserve;
3. Third, to pay the Company Management Fee to the Managing Member;
4. Fourth, to the repayment of any Operating Expense Loans or Working Capital Loans then outstanding;
5. Fifth, to make payment on the HANO Loans until the HANO Loans have been paid in full, with payment applied first to accrued interest and then to principal; and
6. Sixth, any balance shall be distributed, 0.01% to the Managing Member and 99.99% to the Investor Member.

NOTE 8 - MANAGEMENT AGREEMENT

The Company has entered into a management agreement with Guste Homes Resident Management Corporation for a monthly management fee equal to \$23.50 per each occupied unit per month. For the year ended December 31, 2010, \$22,560 was charged to operations, of which the entire balance was paid as of December 31, 2010.

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Company maintains its cash and cash equivalents with financial institutions. At times, these balances may exceed the federal insurance limits; however, the Company has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances at December 31, 2010.



Guste I, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 11 - CONTINGENCIES

Tax Credits

The Company's low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct non-compliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the contributed capital by the Investor Limited Member.

Operating Deficit Guaranty

Pursuant to the Operating Agreement, if at any time the Company requires funds to discharge operating expenses, the Managing Member shall furnish to the Company the funds required. Amounts so furnished to fund operating expenses incurred prior to the Development Obligation Date shall be deemed Special Capital Contributions and amounts furnished on or after the Development Obligation Date shall constitute Operating Expense Loans. Any such Operating Expense Loans shall not bear interest and be repayable only as provided for in the Operating Agreement. As of December 31, 2010, no amounts have been funded.

NOTE 12 - SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through March 1, 2011 (the date the financial statement were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

## SUPPLEMENTAL INFORMATION

Guste I, LLC

SCHEDULES OF CERTAIN INCOME AND EXPENSES

Year ended December 31, 2010

Rental income	
Tenant rental revenue	\$ 182,539
Contract subsidy from HUD	212,943
Rental subsidy from HANO	<u>212,486</u>
Total rental income	<u>\$ 607,968</u>
Vacancies and concessions	
Apartments vacancies	\$ 14,057
Rental concessions	<u>15,810</u>
Total vacancies and concessions	<u>\$ 29,867</u>
Other operating income	
Tenant charges	\$ 1,626
Late fees	1,100
Other assistance received from HANO	115,503
Miscellaneous other income	<u>3,376</u>
Total other operating income	<u>\$ 121,605</u>
Salaries and employee benefits	
Salaries - administrative	\$ 98,744
Workmen's compensation insurance	<u>8,261</u>
Total salaries and employee benefits	<u>\$ 107,005</u>
Repairs and maintenance	
Exterminating	\$ 3,182
Supplies	269
Repairs and maintenance - other than contracts	25,371
Miscellaneous maintenance expenses	<u>14,909</u>
Total repairs and maintenance	<u>\$ 43,731</u>

(continued)

Guste I, LLC

SCHEDULES OF CERTAIN INCOME AND EXPENSES - CONTINUED

Year ended December 31, 2010

Utilities	
Electricity	\$ 5,804
Water	69,196
Trash removal	<u>13,325</u>
Total utilities	<u>\$ 88,325</u>
Miscellaneous operating expenses	
Office supplies and expense	\$ 5,851
Telephone and answering service	4,706
Bad debt expense	9,703
Other rent expense	250
Miscellaneous administrative	2,720
Legal	1,696
Audit	7,269
Accounting	6,576
Other professional fees	<u>35,284</u>
Total miscellaneous operating expenses	<u>\$ 74,055</u>
Other related party fees and expenses	
Company management fee	\$ 12,300
Interest expense - GP other loans	<u>7,470</u>
Total other related party fees and expenses	<u>\$ 19,770</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members,  
Guste I, LLC

We have audited the financial statements of Guste I, LLC (the Company) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2010-01 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of



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deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions and requirements was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance but did disclose another matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2010-01. The Company's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Company's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members, management, and others within the Company, and is not intended to be and should not be used by anyone other than these specified parties.

*Reznick Group, P.C.*

Charlotte, North Carolina  
March 1, 2011

Guste I, LLC

SCHEDULE OF FINDINGS AND RESPONSES

Year ended December 31, 2010

2010-01 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Condition

The auditor noted instances of poor controls over financial reporting. Among the items noted were the following:

- There were journal entries from the prior years that were recorded incorrectly.
- There was operating subsidy from HANO for insurance expenses unrecorded.
- Interest accruals on the loans with HANO were not recorded in 2010.
- Fees due to the members were not recorded.

Cause

While there is improvement noted in the monitoring of the financial reporting process in 2010, there still exists lack of consistent management oversight over the financial reporting process. There is a trial balance for the operations of the Company that is managed by Guste Resident Management Corporation. There are also transactions processed by HANO for other non-operating activities not reflected in the trial balance maintained by Guste Resident Management Corporation. The monitoring of the financial reporting process needs continued improvement to ensure all transactions are recorded in the trial balance to properly present the financial position and results of operations of the Company.

Recommendation

We recommend the Company continue to improve the financial reporting process to properly reflect the financial position and results of operations of the Company.

(continued)

Guste I, LLC

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended December 31, 2010

Management's Response

The auditor noted improvement in the monitoring of the financial reporting process in 2010, but noted there was still need for improvement in management oversight of the financial reporting process. The following procedures will be taken to address the auditors' comments:

- Journal entries will be entered into the accounting system during the period they are created and approved by accounting manager.
- Journal entries to record subsidy from HANO and insurance expenses will be recorded in the period they are created and approved by accounting manager.
- Interest accruals will be recorded in the period that they are incurred by the accounting manager.
- Management fees will be recorded annually as they are earned, as per the operating agreement.

For 2010 the third party property managers were responsible for the financial reporting on the Company. During the fourth quarter of 2010, HANO took control of the financial reporting process. HANO has hired additional accounting staff to oversee and produce the financial statements for the Company. HANO's Controller will ensure all transactions are recorded accurately and timely.

Responsible Party

Ron McIntyre, Finance Manager  
Housing Authority of New Orleans



Guste I, LLC

STATUS OF PRIOR YEAR FINDINGS

Year ended December 31, 2010

Findings - Deficiencies in the Operation of Controls

Deficiency 2009-01

Internal controls over financial reporting.

Status

Still open, see finding 2010-01.

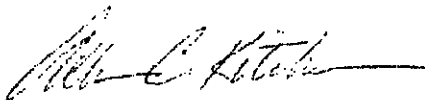
To the Members  
Guste I, LLC

In planning and performing our audit of the financial statements of Guste I, LLC (the "Company") as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The appendix that accompanies this letter summarizes our comment and suggestion regarding this matter. We previously reported on the Company's internal control in our report dated March 1, 2011 which communicated a significant deficiency in the internal control over financial reporting. This letter does not affect our report dated March 1, 2011 on the financial statements of the Company.

We will review the status of this comment during our next audit engagement. We have already discussed this matter with Ron McIntyre, Budget and Finance Manager, and will be pleased to discuss this matter in further detail at your convenience.

This communication is intended solely for the information and use of management, the members, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Charlotte, North Carolina  
April 4, 2011

## *Appendix*

### **Operating Cash Account**

#### Observation

As per the management agreement, Guste Homes Resident Management Corporation (“Guste RMC”), the third party manager of the Company, established an operating bank account for deposit of all revenues associated with the Company and to pay normal and reasonable expenses in relation to the operation and maintenance of the Company. Per the management agreement, the operating bank account shall be subject to the control of the Housing Authority of New Orleans (“HANO”), the owner, and Guste RMC. At current, HANO does not have access to the operating bank account.

#### Recommendation

HANO should ensure the operating bank account is changed to allow HANO access to the account. This would be in compliance with the management agreement between HANO and Guste RMC but will also be a key control in the safe guarding of assets of the Company.